

Business Use of a Vehicle:



Vehicle Expenses

If your job requires you or your employees to use your vehicle for business, you can choose the method you use to compute the deduction. Your choices are:

- Standard Mileage Rate
- Actual Costs

Standard Mileage Rate

You can use this method for both yourself and as a reimbursement to your employees for the use of their own vehicle. The standard mileage rate changes periodically. You multiply the rate by the business miles to determine your deduction. In 2002, the rate is 34 1/2 cents a mile. This amount is meant to cover all of the costs of operating your car. Therefore, if you choose this method, you cannot deduct your actual expenses.

However, if you are self-employed, you can still deduct:

- the part of the interest expense on a car loan that represents your business use of the car (the remainder is not deductible)
- the part of the personal property tax on your car that represents your business use of the car (the remainder is deductible if you itemize deductions), and
- business-related parking fees and tolls.

Employees may not deduct any interest paid on a car loan and may deduct personal property tax on their cars if they itemize deductions. Parking tickets are never deductible.

The standard mileage rate can be used if

- You own or lease your vehicle
- You use the vehicle in your business
- You are not using 2 or more vehicles at the same time
- You have not claimed actual expenses on the vehicle earlier, and
- You keep track of your business miles.

Example1: Greg is a contractor who has two pickup trucks. He uses one truck and his job foreman uses the other truck. Greg also has 4 more employees who occasionally use their own trucks to haul materials. Greg can reimburse his employees using the standard mileage rate. However, since Greg owns and uses two trucks at the same time, he must use actual expenses. If Greg owned one pickup truck, and his foreman owned his own truck, Greg could reimburse his foreman at the standard mileage rate and Greg could claim the standard mileage rate for the business use of his truck.

Example2: Henry used his own pickup in his business. He traded it in during the year on a new pickup. Henry can use the standard mileage rate on both trucks since they were not used at the same time.

Actual Cost

If you use the actual cost method for a vehicle used for both business and personal purposes, you must determine the Business Use Percentage. Divide your business miles by your total

miles for the year to determine this percentage. In order to keep track of the business miles, you should keep a logbook in your vehicle and record the date, the miles, and the purpose of the trip.

Example:

Isaac uses his truck for business. He kept track of his miles all year long using a mileage log.

Total miles	25,000
Commuting miles	4,000
Business miles	15,000
Other personal miles	6,000

Isaac's business percentage is 60% (15,000/25,000)

Actual car expenses include the costs of:

Depreciation	Gas	Taxes
Insurance	Interest	Lease Payments
Licenses	Oil	Repairs
Tires		

First determine the total cost of each expense for the year. Once you have the total for the year, multiply each expense by the business percentage to determine the deductible amount.

Example: Jim kept a log and determined that 75% of his miles on his truck were business miles. He also added up the receipts and they totaled \$6,500. Jim can deduct \$4,875 (6,500 x .75). Jim can also deduct depreciation on the truck.

NOTE: If you received an advance, allowance, or reimbursement for expenses, how you report this amount and your expenses depends on whether the reimbursement was paid to you under an accountable plan or a non accountable plan. For more information see IRS Publication 463.

Additional Resources

See the following Internal Revenue Service resources:

- [Publication 463](#), Travel, Entertainment, Gift, and Car Expenses
- [Publication 535](#), Business Expenses
- [Form 2106](#), Employee Business Expenses
- [Instructions for Form 2106](#), Instructions for Employee Business Expenses Form
- www.irs.gov
- 1-800-829-1040